SUPREME COURT U. S.

JUL 17 1967

JOHN F. DAVIS, CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 391

JOSEPH BANCROFT & SONS CO.,
Petitioner,

v.

SHELLEY KNITTING MILLS, INC.,
Respondent.

APPENDICES A AND B

THOMAS M. MARSHALL
59 Maiden Lane
New York, N. Y.

THOMAS N. O'NEILL, JR.
1421 Chestnut Street
Philadelphia, Pennsylvania
Counsel for Petitioner

Of Counsel:

JAMES H. CALLAHAN
KENYON & KENYON
New York, New York

C. BREWSTER RHOADS
MONTGOMERY, MCCRACKEN, WALKER & RHOADS
Philadelphia, Pennsylvania

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APPENDIX A

AMENDMENT VII TO THE UNITED STATES CONSTITUTION

In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of common law.

28 U. S. C. 1292

Interlocutory decisions

(a) The courts of appeals shall have jurisdiction of appeals from:

(1) Interlocutory orders of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme Court;

28 U. S. C. 2283

Stay of State court proceedings

A court of the United States may not grant an injunction to stay proceedings in a State court except as expressly authorized by Act of Congress, or where necessary in aid of its jurisdiction, or to protect or effectuate its judgments.

APPENDIX B

Memorandum Opinion and Order, December 26, 1964

UNITED STATES DISTRICT COURT

FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 25,092

JOSEPH BANCROFT & SONS COMPANY

v.

SHELLEY KNITTING MILLS, INC.

In light of the allegations of the plaintiff (defendant herein) in Civil Action No. 34244, in this Court, and in No. 5522, June Term, 1963, in the Court of Common Pleas No. 1 of Philadelphia County, which are before this Court on the motion of the plaintiff herein to enjoin the prosecution of said suits, it appears that bad faith, malicious abuse of process and conspiracy on the part of the plaintiff herein, inter alia, in the institution and prosecution of the instant action are asserted in those actions.

Since the present suit is still within our jurisdiction, we deem it legally incumbent upon this Court to make a full inquiry into the motivation and purpose in the institution of this suit. It is a postulate of the legal order, reiterated by the Supreme Court as recently as in *United States* vs. *Powell*, No. 54—October Term, 1964 (November 23, 1964), that "a court may not permit its process to be abused."

Memorandum Opinion and Order, December 26, 1964

Accordingly, we direct that further hearing be had in this action at which the parties may submit such additional evidence as may be relevant and appropriate in the circumstances.

ORDER

Now, December 26th, 1964, it is ordered that further hearing, for the purposes hereinbefore indicated, be had before me on February 2, 1965, at 10:00 A.M.

/s/ C. WILLIAM KRAFT, JR.
Judge

Opinion and Order, September 2, 1968

UNITED STATES DISTRICT COURT

FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 25,092

JOSEPH BANCROFT & SONS COMPANY

v.

SHELLEY KNITTING MILLS, INC.

KRAFT. *J.* September 2, 1965

The history and subject-matter of this action appear in detail in 268 F. 2d 569, and in our adjudication, 212 F. Supp. 715. It is sufficient for present purposes to state that Bancroft sought injunctive and other relief herein, based on allegations of trademark infringement, unfair competition and breach of contract.

Some months after the filing of our adjudication of December 26, 1962, and while the case was before a Master appointed pursuant to Rule 53 of the Federal Rules of Civil Procedure, Shelley filed suit against Bancroft in the Court of Common Pleas No. 7, Philadelphia County, at No. 5521, June Term, 1963, charging Bancroft with malicious abuse of process in the institution of the instant case. That suit by Shelley is now pending before this Court as Civil Action 34244, by reason of removal.

About the same time, Shelley also filed another suit against Bancroft and others in the Court of Common Pleas

No. 1, Philadelphia County, at No. 5522, June Term, 1963, in which it alleged that the instant case was part of an unlawful conspiracy among the defendants to "ruin Shelley and drive it out of business."

Bancroft, thereupon, filed a motion in the instant case to enjoin Shelley from prosecution of its two pending suits.

In the course of the lengthy proceedings in the present case, Shelley's counsel, in the presence and hearing of the trial judge, repeatedly charged Bancroft with bad faith in the institution of the action and declared Shelley's intention to sue Bancroft for misuse of the Court's process. Shelley did not, however, formally tender these issues in its pleadings, its pre-trial memoranda or at pre-trial conference and its failure so to do led the trial judge to conclude, apparently mistakenly, that Shelley's counsel, for tactical and sundry other reasons, made these statements to Bancroft's counsel with tongue in cheek. However, mindful of our inherent power and duty to prevent abuse of the Court's process, 21 C. J. S., Courts, Sec. 88, p. 138, we gave serious and deliberate consideration to the question of Bancroft's motivaton in bringing suit, because of our awareness of the statements of Shelley's counsel. Atlhough we made no specific findings on these issues which were not among those framed at final pre-trial conference, our adjudication in Bancroft's favor necessarily reflected our conclusion that Bancroft brought the action in good faith and with no ulterior motive.

Consideration of Bancroft's present motion to enjoin Shelley's suits persuaded us that we should now make specific findings on the issues posed, and that, in the circumstances, it would be only fair to afford the parties opportunity to offer further evidence on these issues, if they so desired. Ac-

cordingly, without deciding Bancroft's motion, we filed a memorandum and order in which we stated that, since the instant suit was still within our jurisdiction, we deemed it incumbent upon us to make full inquiry into the motivation and purpose of Bancroft in the institution of its suit, and fixed a time for further hearing.

Presently before us is Shelley's motion to vacate that order.

Shelley contends that the Court lacks jurisdiction to conduct the proposed inquiry and to make the proposed findings of fact.

We think our jurisdiction is clear. It is fundamental that "a court may not permit its process to be abused." *United States* v. *Powell*, 379 U. S. 48, 58 (1964). If a court finds that its process has been abused, it should dismiss the cause. As stated in *Pueblo De Taos* v. *Archuleta*, 64 F. 2d 807 (10th Cir. 1933), at p. 812:

> "But all such objections may be brushed aside with the statement that the court is the protector of the purity of its own process, and may take such steps as are necessary to protect against its abuse, on its own motion, or upon the suggestion of a stranger; and neither state statutes nor ordinary procedural rules can thwart a prompt and efficacious discharge of that paramount obligation. Gumbel v. Pitkin, 124 U. S. 131, 8 S. Ct. 379, 31 L. Ed. 374; Lord v. Veazie, 8 How. 251, 12 L. Ed. 1067; Cleveland v. Chamberlain, 1 Black, 419, 17 L. Ed. 93; Harley v. Eureka County Bank, 21 Nev. 127, 26 P. 64, 12 L.R.A. 815; In re Burdick, 162 Ill. 48, 44 N.E. 413; Consolidated Liquor Co. v. Scotello & Nizzi, 21 N.M. 485, 155 P. 1089."

In *Pueblo,* the Court sustained the dismissal of an action on the ground that it had been brought for an ulterior purpose, and stated at p. 813:

> "A court has inherent power to determine whether its process is used for the purpose of vexation or fraud, instead of the single purpose for which it is intended-the adjudication of bona fide controversies. It is the duty of the court to prevent such abuse, and a dismissal of the cause is an appropriate way to discharge that duty: Pueblo of Santa Rosa v. Fall, 273 U. S. 315,319, 47 S.Ct. 361, 71 L. Ed. 658; Houston v. City and County of San Francisco (C.C.) 47 F.337. In Gumbel v. Pitkin, 124 U.S. 131,145, 8 S.Ct. 379,384, 31 L. Ed. 374, the Supreme Court said: 'As we have already seen, and as has been many times declared by this court, the equitable powers of the courts of the United States, sitting as courts of law, over their own process, to prevent abuse, oppression, and injustice, are inherent, and as extensive and effieient as may be required by the necessity for their exercise, and may be invoked by strangers to the litigation as incident to the jurisdiction already vested, without regard to the citizenship of the complaining and intervening party.' "

To the same effect, see *Reid* v. *Prentice-Hall, Inc.,* 261 F. 2d 700 (6th Cir. 1958), at p. 701:

> "The court has inherent power, so long as it retains control of the subject matter and of the parties, to correct that which has been wrongly done by virtue of its process. Gumbel v. Pitkin, 124 U.S. 131, 144,

> 8 S.Ct. 379, 31 L. Ed 374; 14 Am. Jur., Courts, Section 171; Arkadelphia Milling Co. v. St. Louis Southwestern Railway Company, 249 U.S. 134, 39 S.Ct. 237, 63 L. Ed. 517. The court has inherent power to punish abuse of its process by dismissal of an action in the interest of orderly administration of justice."

We conclude that not only do we have jurisdiction, but that it is our judicial duty, in an action pending before us, to investigate charges of conspiracy and malicious abuse of process in its institution and prosecution.

Shelley also asserts that it has demanded trial by jury in its two suits, and that the proposed investigation would deny Shelley its constitutional right to trial by jury. It contends that our determination on the issues now presented "might well be deemed to constitute res judicata or collateral estoppel, preventing Shelley from obtaining a trial by jury." We think this contention is without merit.

As already stated, implicit in our adjudication in Bancroft's favor was a finding of Bancroft's good faith. We had and have the power, in our view, to make specific findings on the issue without further evidence. The prime purpose of our order was to afford the parties ample opportunity to submit additional evidence, if they so desired. If our specific findings should embarrass Shelley in the trial of its two suits, it is because Shelley itself repeatedly challenged Bancroft's good faith in the instant suits by statements and threats of suit made in the presence and hearing of the trial judge. Once it became evident that Shelley's challenges and threats were serious, the issues were in this case and it was our obligation to decide them even though Shelley may have

deliberately refrained from tendering these issues at pre-trial conference in the hope that, if Bancroft prevailed, Shelley would have preserved these issues for another trial and, possibly, another forum. In light of the necessity to protect the integrity of the Court's own process we were not free to ignore Shelley's charges of bad faith, conspiracy and malicious abuse of process in the very institution and prosecution of Bancroft's suit.

We think Shelley's reliance on *Beacon Theatres* v. *Westover,* 359 U. S. 500 (1959), is misplaced. That case holds, in essence, that where both legal and equitable issues are presented *in a single case,* any legal issues for which a trial by jury is timely and properly demanded must be submitted to a jury. Shelley made no demand for a jury trial of any legal issues presented in the case at bar.

Hence, though we believe Shelley's remaining contention that our proposed findings are untimely has been sufficiently answered in our discussion of its preceding contentions, it is also important to note that no final judgment has been entered and jurisdiction has been retained.

We shall, therefore, enter an order denying Shelley's motion to vacate our earlier order.

Both parties have expressly disclaimed any desire or intention to submit further evidence. Accordingly, we shall make appropriate findings of fact and conclusions of law.

ORDER

Now, September 2, 1965, after present review of the trial record and due consideration, it is ordered that:

1. Defendant's motion to vacate our order of December 26, 1964 be, and it is, denied.

2. The adjudication be, and it is, supplemented by the addition of the following findings of fact:

175. Bancroft instituted and prosecuted this action in good faith and for its ostensible purpose.

176. Bancroft, in the institution and prosecution of this action had no intent to vex, harass, or oppress Shelley, and had no intent to ruin or to drive Shelley out of business.

177. Bancroft, its officers, employees, agents and attorneys did not conspire among themselves or with others to ruin Shelley or to drive Shelley out of business.

3. The adjudication be, and it is, further supplemented by the addition of the following conclusions of law:

19. Bancroft instituted and prosecuted this action solely for the purpose of obtaining an adjudication of its bona fide controversy with Shelley.

20. Bancroft's institution and prosecution of this action was not a malicious abuse of process.

21. Bancroft's institution and prosecution of this action was not part of nor the result of any conspiracy among Bancroft, its officers, employees, agents or attorneys or among any of them, with or without others, to ruin Shelley or drive it out of business.

4. Pending final judgment in this action, Shelley Knitting Mills, Inc., its assignees or successors, are enjoined and restrained from further prosecution of or proceeding in Civil Action 34244 in this Court and in No. 5522 June Term 1963 in the Court of Common Pleas of Philadelphia County, unless this Court shall sooner otherwise order.

C. WILLIAM KRAFT, JR.
Judge

Opinion of The Court, March 8, 1967

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 15664

JOSEPH BANCROFT & SONS CO.

v.

SHELLEY KNITTING MILLS, INC.
Appellant

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Argued November 29, 1966

Before SMITH, FREEDMAN and SEITZ, *Circuit Judges.*

FREEDMAN, *Circuit Judge.*

Shelley Knitting Mills, Inc. appeals from a preliminary injunction restraining it from prosecuting two civil actions which it brought in the state courts of Pennsylvania against Joseph Bancroft & Sons Co.

The litigation between the parties originated in 1958 in a suit by Bancroft against Shelley for trademark infringement, unfair competition and breach of contract.

After a lengthy trial in 1962[1] the district judge filed an adjudication on December 26, 1962 containing 174 findings of fact and 18 conclusions of law in which he found that Shelley had infringed Bancroft's trademark and had been guilty of unfair competition and that Bancroft was entitled to an accounting for profits by Shelley, which in the meanwhile had gone into bankruptcy. A permanent injunction was refused because of the absence of irreparable damage and because Shelley had discontinued business, but the district court retained jurisdiction pending final determination of Bancroft's damage claim.

On September 11, 1963, while the accounting was still pending before a special master appointed by the court, Shelley instituted the two civil actions which give rise to the present controversy, in the Courts of Common Pleas of Philadelphia County, Pennsylvania. One was against Bancroft alone, and the other was against Bancroft, a licensee of Brancroft and four individual officers or employees of Bancroft and of the licensee. The action against Bancroft alone was removed to the district court. In each suit Shelley alleged that Bancroft's action against it in the district court was brought for the purpose of driving it out of business and not for its ostensible purpose of proving trademark infringement and unfair competition. In the action against Bancroft and the four individual defendants, Shelley alleged additionally that the defendants had conspired to drive it out of business and that the original suit was an overt act in furtherance of the conspiracy.

Thereupon on November 1, 1963 Bancroft filed in its original action in the district court a motion "in aid of

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[1]We had earlier reversed the award of a preliminary injunction because there was no showing of irreparable injury. Joseph Bancroft & Sons Co. v. Shelley Knitting Mills, Inc., 268 F. 2d 569 (3 Cir. 1959).

and for the protection and effectuation of [the] . . . court's jurisdiction over the parties and the subject matter of this action and its Adjudication and judgment in this action entered December 26, 1962," to enjoin Shelley from prosecuting its two actions. On December 28, 1964 the court filed a memorandum opinion in which it stated: "Since the present suit is still within our jurisdiction, we deem it legally incumbent upon this Court to make a full inquiry into the motivation and purpose in the institution of this suit. It is a postulate of the legal order . . . that 'a court may not permit its process to be abused,'" citing *United States v. Powell,* 379 U. S. 48 (1964). The court accordingly set a further hearing for the submission of such additional evidence "as may be relevant and appropriate."

At the time fixed for the hearing neither of the parties presented any additional evidence, although the district judge gave them a full opportunity to do so. Shelley, however, later presented a petition requesting that the court withdraw its decisions to investigate and make additional findings, on the ground that Shelley had made known to the court and to Bancroft and its counsel as early as December 1959 its intention to sue Bancroft for malicious abuse of process. Bancroft answered the petition, denying that Shelley had made any such claim and alleging on the contrary that Shelley had only made known an intention to sue Bancroft for malicious use of process or wrongful initiation of civil proceedings in the event that Bancroft's action proved unsuccessful. In support of this Bancroft also alleged that Shelley had obtained the permission of the Bankruptcy Court in January 1960 to employ counsel to sue Bancroft if its action ultimately should be decided in favor of Shelley.

. . On September 2, 1965 the district judge filed an opinion and entered an order in which, after reciting that he had reviewed the trial record, he denied Shelley's petition to vacate the order of December 28, 1964 and supplemented his adjudication of December 26, 1962 by adding findings of fact nos. 175 to 177, inclusive and conclusions of law nos. 19 to 21 inclusive. In these supplemental findings and conclusions the district judge stated that Bancroft had instituted and prosecuted its action in good faith and for its ostensible purpose, with no intention to vex, harass or oppress Shelley or to ruin or to drive it out of business and that Bancroft and its officers, employees, agents and attorneys had not conspired among themselves or with others to do so. In the supplemental conclusions of law he stated that Bancroft brought its action solely for the purpose of obtaining an adjudication of its bona fide controversy with Shelley, that there was no malicious abuse of process, and that Bancroft's action was not part or the result of any conspiracy to ruin Shelley or drive it out of business. The order accordingly declared: "Pending final judgment in this action, Shelley Knitting Mills, Inc., its assignees or successors, are enjoined and restrained from further prosecution of or proceeding in " the two civil actions brought by Shelley, "unless this Court shall sooner otherwise order." It is from this injunction that Shelley has appealed.

In the course of his opinion, the district judge recorded that he had been led to conclude, "apparently mistakenly," that the remarks which Shelley's counsel had repeatedly made in his presence during the trial, which charged Bancroft with bad faith in instituting the action and his statements that Shelley intended to sue Bancroft for abuse of process had been made "for tactical and sundry other

reasons . . . with tongue in cheek." The court then went on to say that "although we made no specific findings on these issues which were not among those framed at final pre-trial conference, our adjudication in Bancroft's favor necessarily reflected our conclusion that Bancroft brought the action in good faith and with no ulterior motive.

* * *

"As already stated, implicit in our adjudication in Bancroft's favor was a finding of Bancroft's good faith. . . . If our specific findings should embarrass Shelley in the trial of its two suits, it is because Shelley itself repeatedly challenged Bancroft's good faith in the instant suit by statements and threats of suit made in the presence and hearing of the trial judge. Once it became evident that Shelley's challenges and threats were serious, the issues were in this case and it was our obligation to decide them even though Shelley may have deliberately refrained from tendering these issues at pre-trial conference in the hope that, if Bancroft prevailed, Shelley would have preserved these issues for another trial and, possibly, another forum. In light of the necessity to protect the integrity of the Court's own process we were not free to ignore Shelley's charges of bad faith, conspiracy and malicious abuse of process in the very institution and prosecution of Bancroft's suit."

The argument before us attacks the district court's power to make the findings of fact and conclusions of law which underlie the injunction. Shelley contends that these findings are irrelevant to Bancroft's suit against it, which is all that was before the court. Bancroft urges, on the other hand, that courts of justice have inherent power to protect the purity of their own process and on their own

motion or even on the suggestion of a stranger may undertake to determine whether their process has been abused, especially where the case is still pending and no final judgment has been entered. Shelley replies that this rule has no application where the suit is for malicious *abuse* of process rather than malicious *use* of process, because it is extraneous to the merits of the controversy in the first proceeding.[2] It points out that the extensive findings of fact and conclusions of law in the adjudication of December 26, 1962 contain no mention of Brancroft's intention or motive in instituting its suit against Shelley. Shelley also argues that in any event the court's action invades its constitutional right to trial by jury on its claims of malicious abuse of process. To this Bancroft answers that Shelley waived any right it may have had to trial by jury because it did not demand a jury trial during the proceedings before the district judge, either in its response to Bancroft's

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[2]In the leading case of Mayer v. Walter, 64 Pa. 283, 285-86 (1870), Sharswood, J., said: "There is a distinction between a malicious use and a malicious abuse of legal process. An abuse is where the party employs it for some unlawful object, not the purpose which it is intended by the law to effect; in other words, a perversion of it. Thus, if a man is arrested, or his goods seized in order to extort money from him, even though it be to pay a just claim other than that in suit, or to compel him to give up possession of a deed or other thing of value, not the legal object of the process, it is settled that in an action for such malicious abuse it is not necessary to prove that the action in which the process issued has been determined, or to aver that it was sued out without reasonable or probable cause: Grainer v. Hill, 4 Bing. N.C. 212. It is evident that when such a wrong has been perpetrated, it is entirely immaterial whether the proceeding itself was baseless or otherwise. We know that the law is good, but only if a man use it lawfully." See also Johnson v. Land Title Bank & Trust Co., 329 Pa. 241, 198 A. 23 (1938); Publix Drug Co. v. Breyer Ice Cream Co., 347 Pa. 346, 32 A.2d 413 (1943); Dumont Television & Radio Corp. v. Franklin Electric Co. of Philadelphia, 397 Pa. 274, 154 A.2d 585 (1959); Wheeldin v. Wheeler, 373 U. S. 647, 655-56 (1963), Brennan J., dissenting.

motion to enjoin the prosecution of Shelley's two actions, or in its petition for the withdrawal of the court's order of December 28, 1964.

In our view it is unnecessary to determine whether the court below had power to enjoin Shelley from prosecuting its actions for malicious abuse of process. For even if the power exists, we believe that it should not have been exercised in the existing circumstances. The adjudication of the merits of an action before the court ordinarily is the limit of its duty. There may, of course, exist circumstances so unusual in their nature that a court should determine the intention with which the litigation is brought in order to avoid hearing a collusive action or one which does not represent a justiciable controversy.[3] This, however, is not such a case. The court had already adjudicated the merits of the controversy dealing with trademark infringement and unfair competition and it was only after a long lapse of time and because Shelley had instituted its state court actions for malicious abuse of process that the present effort was made to determine on the merits in the present action, which was simply awaiting the assessment of damages, whether there was merit in what Shelley had now claimed in its two state court actions.

It is undesirable for a federal judge to look over his shoulder long after he has decided a case on the merits and then undertake to determine whether the successful party had brought the action for an improper purpose, and this is especially so where this purpose has already been made the subject matter of separate litigation. What was done in this civil action is not much different in principle

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[3] See generally Hart & Wechsler, The Federal Courts & the Federal System (1953), pp. 114-119, 126-30; Wright, Federal Courts (1963), § 12.

than it would be for a judge in a criminal proceeding at the private prosecutor's request to determine from the evidence before him whether the proceeding was initiated on probable cause and to prohibit by injunction or forestall by collateral estoppel a later action by the successful defendant against the private prosecutor for malicious prosecution, although, of course, in a criminal case there are also other limitations.

Although the action of the court below was expressed in the form of a vindication of the purity of its processes, what is realistically involved constitutes no affront to the dignity or authority of the court, but involves simply a claim that a right to damages exists against one who improperly employed the right subsisting in a valid cause of action to the damage and injury of his adversary. Such a claim is entitled to the independent determination which Shelley has invoked, and not to an adjudication subordinated to the merits of the cause of action which Shelley claims is not determinative, even if it is valid, of the suit for malicious abuse of process. In the present unusual circumstances, Shelley is entitled to maintain its separate actions in which it demanded trial by jury. Its preference to stay outside the jurisdiction of the chancellor who decided the original case against it and to submit to a state court jury its claim that the action which it had lost in the federal court constituted a malicious abuse of process, should be preserved. The fundamental separateness of the actions for abuse of process from the action for trademark infringement and unfair competition is not altered because one of the actions was removed to the federal court.

In holding that the court below should have declined to interfere with the separate actions which Shelley originally brought in the state courts, one of which is still

pending there against Bancroft and the individual defendants, we also effectuate the policy which prohibits the federal courts from lightly granting injunctions against proceedings in state courts. This policy is now expressed in 28 U. S. C. § 2283: "A court of the United States may not grant an injunction to stay proceedings in a State court except as expressly authorized by Act of Congress, or where necessary in aid of its jurisdiction, or to protect or effectuate its judgments."[4]

Whatever "inherent" effect the extensive findings of fact and conculsions of law which the court below made in its original adjudication may have as collateral estoppel against Shelley in its independent actions will be a matter for determination there. Shelley is entitled to have this decided independently and not as an interstitial addition made long after the decision on the merits in Bancroft's action against it.

The judgment of the court below enjoining and restraining Shelley from further prosecuting its Civil Action No. 34,244 against Bancroft and its action against Bancroft and others in the Court of Common Pleas No. 1 at Philadelphia County at June Term, 1963, No. 5522, and the supplemental adjudication on which it was based will be vacated with direction to dismiss without prejudice Bancroft's motion to enjoin Shelley from prosecuting its two pending suits.

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[4]See generally Developments in the Law—Injunctions, 78 Harv. L. Rev. 994, 1045-53 (1965); Note, 74 Harv. L. Rev. 726 (1961); Comment, 114 U. Pa. L. Rev. 561 (1966).

Judgment, March 8, 1967

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 15,664

JOSEPH BANCROFT & SONS, CO.

vs.

SHELLEY KNITTING MILLS, INC.,
Appellant

(D. C. Civil Action No. 25092)

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Present:

SMITH, FREEDMAN and SEITZ, *Circuit Judges.*

JUDGMENT

This cause came on to be heard on the record from the United States District Court for the Eastern District of Pennsylvania and was argued by counsel.

On consideration whereof, it is now here ordered and adjudged by this Court that the judgment of the said District Court, filed September 2, 1965, which enjoined and restrained Shelley from further prosecution of its Civil Action No. 34244 against Bancroft and its action against Bancroft and others in the Court of Common Pleas No. 1 at Philadelphia County at June Term, 1963, No. 5522, and the supplemental adjudication on which it was based be and

hereby is vacated, with costs, and the cause is remanded with direction to dismiss without prejudice Bancroft's motion to enjoin Shelley from prosecuting its two pending suits.

ATTEST:

THOMAS F. QUINN
Clerk

March 8, 1967

Petition for Rehearing, April 6, 1967

IN THE

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT.

No. 15664.

JOSEPH BANCROFT & SONS CO.,

v.

SHELLEY KNITTING MILLS, INC.,

Appellant.

APPEAL FROM ORDER OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA GRANTING AN INJUNCTION PENDING FINAL JUDGMENT.

PETITION OF JOSEPH BANCROFT & SONS CO. FOR REHEARING.

Of Counsel:

JAMES H. CALLAHAN,
KENYON & KENYON,
C. BREWSTER RHOADS,
MONTGOMERY, MCCRACKEN,
WALKER & RHOADS.

THOMAS M. MARSHALL,
165 Broadway,
New York, N. Y.,

THOMAS N. O'NEILL, JR.,
1421 Chestnut Street,
Philadelphia, Pennsylvania,
Attorneys for Petitioner-Appellee.

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H. M. Kolbe Co. v. Armgus Textile Co., 315 F. 2d 70 (2d Cir. 1963)	6[31a]
Lederer v. Garage Equip. Mfg. Co., 235 Fed. 527 (7th Cir. 1916)	6[31a]
Marconi Wireless Co. v. United States, 320 U. S. 1 (1943)	5[29a]
Pueblo DeTaos v. Archuleta, 64 F. 2d 807 (10th Cir. 1933)	3[27a]
Reeve Music Co. v. Crest Records, Inc., 285 F. 2d 546 (1st Cir. 1957)	6[30a]
Reid v. Prentice-Hall, Inc., 261 F. 2d 700 (6th Cir. 1958)	3[27a]
Sheldon v. Moredall Realty Corp., 95 F. 2d 48 (2d Cir. 1938)	6[31a]
United States v. Powell, 379 U. S. 48 (1964)	3[27a]
Zwack v. Kraus Bros. Co., 237 F. 2d 255 (2d Cir. 1956)	6[31a]

STATUTE AND RULES CITED.

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Federal Rules of Civil Procedure:	
Rule 52(a)	1[26a], 7[31a]
Rule 52(b)	5[30a]
Judicial Code, § 1292(a)(1), 28 U. S. C. § 1292(a)(1)	1[25a], 6[30a], 7[32a]

PETITION FOR REHEARING.

Joseph Bancroft & Sons Co., plaintiff-appellee, petitions this Court pursuant to Rule 33 for a rehearing insofar as its Opinion filed March 8, 1967 vacated the findings of fact and conclusions of law contained in the supplemental adjudication of the District Court filed September 2, 1965.

Petitioner respectfully submits that, in vacating said findings and conclusions, this Court exceeded the scope of its jurisdiction under § 1292(a) (1) of the Judical Code because it vacated findings which are relevant to the fundamental question of plaintiff's right to recover in this action. The Court appears to have assumed erroneously that the findings were relevant only to the injunction restraining defendant from prosecuting its new actions, the propriety of which was the sole issue on this interlocutory appeal.

In vacating these supplemental findings and conclusions of the District Court, this Court has

(a) decided a portion of the case on the merits before final judgment;

(b) deprived the District Court of its power to amend, modify or supplement its decision at any time before final judgment;

(c) prevented the District Court from exercising its power to protect its own process from abuse by deciding whether to dismiss an action allegedly brought for an improper motive;

(d) deprived petitioner of its right to a full adjudication of the issues which were tried in this action and thus of whatever benefit such an adjudication properly may confer upon petitioner in the actions brought against it by defendant; and

(e) summarily set aside findings of fact made by the District Court without reference to the standards of Rule 52(a) of the Federal Rules of Civil Procedure.

The decision of this Court to vacate the supplemental adjudication was not necessary to the decision to vacate the grant of the temporary injunction. It has produced consequences more serious and far-reaching than required by the determination of the single issue properly before this Court. It involves questions which have not been briefed or argued previously on this appeal. Petitioner therefore respectfully requests this Court to grant a rehearing and to reinstate the supplemental findings and conclusions.

Petitioner believes that the District Court did not abuse its discretion in granting the injunction appealed from and respectfully submits that this Court erred in vacating the injunction. Petitioner nevertheless acknowledges that it was within this Court's power to vacate this injunction and, accordingly, does not seek rehearing of that question.

I. The Findings and Conclusions of the District Court Were Relevant to Plaintiff's Fundamental Right to Maintain This Action and Secure Judgment Herein as Well as to Issuance of the Injunction.

This Court, by vacating both the supplemental adjudication and the order enjoining defendant from prosecuting its new actions, appears to have misconceived the function of the additional findings of fact and conclusions of law entered by the District Court. Petitioner respectfully submits that their function was twofold: First, to overrule expressly the defenses based upon plaintiff's alleged bad

faith in instituting this action, which were repeatedly raised by defendant during and after trial of this case; and, second, to provide support for the issuance of the District Court's injunction. Therefore such findings and conclusions do not fall as a necessary effect of the vacation of the injunction.

The relevance of the findings and conclusions to the District Court's adjudication of the merits of the action cannot be doubted. A federal court, whether sitting as a court of law or equity, has the inherent power to protect its process from abuse. *United States* v. *Powell,* 379 U. S. 48 (1964); *Gumbel* v. *Pitkin,* 124 U. S. 131 (1888); *Reid* v. *Prentice-Hall, Inc.,* 261 F. 2d 700 (6th Cir. 1958); *Pueblo DeTaos* v. *Archuleta,* 64 F. 2d 807 (10th Cir. 1933). Moreover, the District Court was under a duty to determine, as a prerequisite to the exercise of its equitable jurisdiction, whether plaintiff came into court with clean hands. *Hazel Atlas Glass Co.* v. *Hartford-Empire Co.,* 322 U. S. 238 (1944), *rehearing denied,* 322 U. S. 238 (1944); *Gaudosi* v. *Mellon,* 269 F. 2d 873 (3d Cir.), *cert. denied,* 361 U. S. 902 (1959); *Hall* v. *Wright,* 240 F. 2d 787 (9th Cir. 1957); *American Ins. Co.* v. *Lucas,* 38 F. Supp. 896, (W. D. Mo. 1940), *appeal dismissed* 314 U. S. 575 (1941), *aff'd sub nom. American Ins. Co.* v. *Scheufler,* 129 F. 2d 143 (8th Cir. 1942), *cert. denied,* 317 U. S. 687 (1942). Had the District Court concluded that plaintiff was guilty of unclean hands or had abused its process in connection with this litigation, the appropriate remedy would have been to dismiss the present action. See *Hazel Atlas Glass Co.* v. *Hartford-Empire Co., supra; Hall* v. *Wright, supra.* Determination of that issue of fact was not only relevant but critical to the merits of the case.

Plaintiff demonstrated in its Brief on this appeal that the issues on which the District Court made the additional

findings and conclusions were tried, as matters of defense, at the trial of this action. They were advanced in defendant's pretrial memorandum, became the subject of extensive cross-examination at the trial, and were emphatically asserted by counsel for defendant in his post-trial argument. Even if those matters had not been placed in issue, when such charges were brought to the attention of the District Court, it was obligated to consider them before granting the relief sought by plaintiff.

After Shelley had renewed these allegations in its new actions, the trial judge (having been made aware of these actions by Bancroft's promptly-filed motion) *on his own motion* reopened this aspect of the case and invited the parties to introduce any additional evidence on the question. When Shelley declined to do so, the Court, on the basis of the record made at trial, entered these additional findings and conclusions and granted Bancroft's motion.

Given the undoubted relevance of defendant's allegations to plaintiff's right to recover on the merits, the statements of Judge Kraft that his "adjudication in Bancroft's favor necessarily reflected [his] conclusion that Bancroft brought the action in good faith, and with no ulterior motive . . ." and "implicit in [his] adjudication in Bancroft's favor was a finding of Bancroft's good faith" are not open to question. What Judge Kraft decided at the time of his original adjudication was a fact, and a fact as to which only he could have personal knowledge. This factual finding has been set aside by this Court without any finding that it is unsupported by the record, or that Judge Kraft abused his discretion in making such a finding. Petitioner respectfully submits that, in the light of Judge Kraft's statement and the demonstrated relevance of defendant's allegations to the merits of this case, there is no basis for this Court's state-

ment that Judge Kraft was "looking over his shoulder long after he had decided the case on the merits. . . ." Instead, he was only making perfectly clear what he already had decided.

The present situation differs markedly from the hypothetical case posed by this Court at page 7 of its Opinion. There the judge in a criminal case was requested to rule upon an issue *not germane* to the proceeding before him, because a conviction could be had whether or not there was probable cause for the private prosecutor to have sworn out the warrant and the motive of the private prosecutor would not have any legal significance unless and until the criminal case resulted in a final judgment of acquittal. But here, the issue having been injected into the case by defendant, plaintiff's very right to recover depended upon its convincing the District Court that its purpose in bringing this action was a proper one exercised in good faith. Shelley's allegations of bad faith and improper motive on the part of Bancroft, if proved, would have been a complete defense to this action. Once defendant made these allegations, the District Court was required to satisfy itself that they were unfounded before entering final judgment in favor of plaintiff.

Faced with the situation presented here, it was entirely proper for Judge Kraft to file his supplemental adjudication. In *Marconi Wireless Co.* v. *United States,* 320 U. S. 1, 47 (1943), the Supreme Court has held squarely that, subsequent to its decision on the merits and while an accounting is pending, a district court "does not lack power . . . to reconsider any portion of its decision and reopen any part of the case." Furthermore, Rule 52(b) of the Federal Rule of Civil Procedure provides that a district

court may amend its findings or make additional findings even after judgment has been entered upon motion seasonably made. Petitioner submits that the summary vacation by this Court of the additional findings and conclusions is directly contrary to the rule of the *Marconi* case and represents a serious intrusion upon the District Court's power under Rule 52(b).

Nor can it be concluded that the mere institution by the defendant of its new actions in a state court terminates the District Court's power or duty to control and adjudicate the case before it. Such a proposition is of such novel and far-reaching importance to the delicate balance between the respective powers of the federal and state courts that it should not be resolved by this Court unless absolutely necessary to its decision. The relevance of any determinations of the District Court in this action to the issues in the subsequent actions is, as both the District Court (Appendix, p. 357a) and this Court have stated, for the courts in which those actions are pending to decide. But the power to determine issues relevant to this federal action properly resides in the District Court, whatever the effect of its determinations on the other actions.

II. This Court Exceeded Its Jurisdiction Under Section 1292(a)(1) of the Judicial Code in Vacating the Findings of Fact Nos. 175-177 of the District Court and the Conclusions of Law Based Thereon.

On this appeal, this Court's jurisdiction is limited, under §1292(a)(1) of the Judicial Code, 28 U. S. C. § 1292(2)(1), solely to the propriety of the grant of the preliminary injunction by the District Court. See, *e.g.*, *Reeve Music Co.* v. *Crest Records, Inc.*, 285 F. 2d 546 (1st

Cir. 1957); *Sheldon* v. *Moredall Realty Corp.*, 95 F. 2d 48 (2d Cir. 1938); *Chaleloid Chemical Co.* v. *H. B. Chalmers Co.*, 243 Fed. 606 (2d Cir. 1917). This Court does not now have jurisdiction to review the entire case, or any part of it, on the merits. *Drop Dead Co.* v. *S. C. Johnson & Son, Inc.*, 326 F. 2d 87 (9th Cir. 1963); *H. M. Kolbe Co.* v. *Armgus Textile Co.*, 315 F. 2d 70 (2d Cir. 1963); *Zwack* v. *Kraus Bros. Co.*, 237 F. 2d 255 (2d Cir. 1956); *Lederer* v. *Garage Equip. Mfg. Co.*, 235 Fed. 527 (7th Cir. 1916). The merits of the case are reviewable only after entry of final judgement. Since, as demonstrated, the findings and conclusions entered by the District Court are relevant to plaintiff's right to recover, it was improper for this Court to vacate them.

If the only function of the findings and conclusions of September 2, 1965 had been to support the injunction, it might be that this Court would have jurisdiction to vacate them as an incident to its reversal of the order granting the injunction. However, to do so, this Court would be required to determine that the findings and conclusions had no function other than to support the injunction. Otherwise, such a determination must await a review of those findings in the light of the entire record on an appeal from the final judgment of the District Court. Any doubt as to the function of those findings and conclusions should properly be resolved in favor of their retention pending such review.

Moreover, whenever those findings are to be reviewed, their propriety must be determined by reference to Rule 52(a) which prohibits their being set aside unless they are found to be "clearly erroneous." Such a determination,

like the determination of the relevance of these findings, would require a review of the entire record in this case. The Opinion of this Court does not refer to the evidence set forth in petitioner's Brief to support the findings, nor does it point to any evidence contrary to the findings or discuss any principle of law which would authorize the vacation of the findings without adherence to Rule 52(a).

CONCLUSION.

Recognizing the discretionary nature of this Court's power to vacate the injunction, petitioner has not requested a rehearing with respect to that part of this Court's decision. But petitioner respectfully submits that this Court erred in vacating findings and conclusions relevant to the plaintiff's right to recover prior to an appeal from a final judgment, and thus exceeded its statutory jurisdiction under § 1292(a)(1) of the Judicial Code to entertain interlocutory appeals. In so doing, this Court has denied the District Court the power to perform its rightful duty—the adjudication of the merits of the action. The entry of the findings and conclusions by the District Court represents not an "interstitial" determination of defendant's claims, but a determination of issues relevant and critical to plaintiff's right to recovery in this action. Reinstatement of them will not deprive defendant of its right to a full adjudication in the forum of its choosing, to the extent permitted by the doctrine of collateral estoppel, of the claims which it has asserted in its new actions. Vacation of them will, however deprive plaintiff of a full and explicit adjudication of all the issues involved in this action. Accordingly, petitioner respectfully requests that this Court grant a rehearing

and reinstate the vacated findings of fact and conclusions of law of the District Court.

Respectfully submitted,

Of Counsel:

JAMES H. CALLAHAN,
KENYON & KENYON,

C. BREWSTER RHOADS,
MONTGOMERY, MCCRACKEN,
WALKER & RHOADS.

THOMAS M. MARSHALL,
165 Broadway,
New York, N. Y.,

THOMAS N. O'NEILL, JR.,
1421 Chestnut Street,
Philadelphia, Pennsylvania,
Attorneys for Petitioner-Appellee.

CERTIFICATE OF COUNSEL

I, THOMAS N. O'NEILL, Esquire, hereby certify that the foregoing Petition for Rehearing is presented in good faith and not for delay.

THOMAS N. O'NEILL, JR.,
Attorney for Petitioner-Appellee
Joseph Bancroft & Sons Co.

Denial of Petition for Rehearing, April 20, 1967

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 15,664

JOSEPH BANCROFT & SONS CO.

v.

SHELLEY KNITTING MILLS, INC.,
Appellant

SUR PETITION FOR REHEARING

Present:

STALEY, *Chief Judge,* MCLAUGHLIN, HASTIE, SMITH, FREEDMAN, SEITZ, *Circuit Judges.*

The petition for rehearing filed by JOSEPH BANCROFT & SONS CO. in the above entitled case having been submitted to the judges who participated in the decision of this court and to all the other available circuit judges of the circuit in regular active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the court in banc, the petition for rehearing is denied.

By the Court,
ABRAHAM L. FREEDMAN
Judge

Dated: April 20, 1967.